

**Washington State Auditor's Office**  
**Special Education Program Audit**  
**Audit Services**

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Report No. 58300

**OAKVILLE SCHOOL DISTRICT No. 400**

Grays Harbor County, Washington

September 1, 1995 Through August 31, 1996

June 6, 1997

I am pleased to report the results of our program audit of Oakville School District No. 400 Special Education Program covering the period September 1, 1995, through August 31, 1996. This report was prepared under the authority granted by Chapter 283, Laws of 1996.

Our audit gives an independent, accurate assessment of the condition of the program during the period we reviewed. I hope it is used as a constructive management tool to help the school districts improve their operations and to help the Legislature and others in policy decisions on special education funding.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

Copies transmitted to:

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Eldon Lonborg, Superintendent  
Craig Bailey, Assistant Special Education Director/School Psychologist  
Michele Young, Business Manager  
Margaret Schubert, Special Education Secretary  
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Marcelyn A. Senger, School Business Services-Supervisor of Audit Management and  
Resolution, Superintendent of Public Instruction  
Safety Net Committee  
Jim West, Chair, Senate Ways and Means Committee  
Tom Huff, Chair, House Appropriations Committee  
Cheryle Broom, Legislative Auditor, Joint Legislative Audit and Review Committee  
Edith Harding, Washington State Institute for Public Policy  
Laurie Fortier, State Publication Distribution, State Library  
The Honorable Christine O. Gregoire, Attorney General, Office of the Attorney General

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# Oakville School District No. 400 Special Education Program Audit Report Summary

## BACKGROUND

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The State Auditor's Office was given responsibility for auditing special education programs by the Legislature. Lawmakers were concerned about special education programs that exhibit unusual rates of growth, extraordinarily high costs or other characteristics requiring the attention of the State Special Education Safety Net Committee. The Safety Net Committee was created to oversee state and federal special education funds set aside by the Legislature to assist school districts with demonstrated financial or program needs not met through the special education funding formula.

The Oakville School District is among approximately 20 school districts to be selected for a program audit this fiscal year. The district was selected based upon the change in its special education population and its 1995-96 application for additional funding through the state safety net.

## AUDIT RESULTS

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### Objective 1:

**To determine whether the Oakville School District Special Education Program effectively and efficiently provides a Free and Appropriate Public Education (FAPE) to special education students as defined by the *Washington Administrative Code* (WAC).**

### Conclusions:

- In our opinion, the district provides FAPE to special education students. The services are designed to meet the needs of students with disabilities to the same extent as students without disabilities.
- The district has begun to limit its referrals to special education as part of an effort to decrease special education enrollment. The district is taking a closer look at students to assess whether they are "in need of special education services," considering more education alternatives before referring students to special education and electing to qualify students for special education based on qualifying test scores and not "professional judgment."

***District Response:***

*None.*

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**Objective 2:**

**To evaluate the Oakville School District Special Education Program system of internal controls that ensure compliance with state and federal special education requirements.**

**Conclusion:**

- The district generally has adequate internal control policies and procedures.
- However, we identified two areas that should be strengthened:
  - 1) Of 34 files reviewed, 29.4 percent of the students were counted without a current individual education program (IEP), and 17.6 percent were counted without a current evaluation. We recommend the district only count students with current IEPs or evaluations.
  - 2) Each member of the Multi-Disciplinary Team (MDT) must sign the evaluation summary analysis to indicate agreement with the analysis. Some files only had the signature of the school psychologist. We recommend implementing procedures to ensure each MDT member signs the summary analysis.

***District Response:***

*The district stated that it will take more care to ensure only students with current IEP's and evaluation are counted. The district will develop procedures to ensure each MDT member signs the summary analysis.*

**Auditor's Concluding Remarks:**

We appreciate the district's prompt attention to this issue.

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**Objective 3:**

**To verify that the Oakville School District Special Education Program IEPs are appropriate and properly prepared.**

**Conclusion:**

Besides the enrollment counting and MDT signature issues discussed in Objective 2, we noted additional items of concern related to IEPs.

- The IEP did not address the recommendations made by the MDT on the summary analysis in several files. We recommend the district verify that IEPs are written to reflect the MDT recommendations.
- We found two “monitoring” IEPs in the 34 files reviewed. The district used monitoring IEPs to observe the success of students in the regular classroom before exiting them from the special education program. We recommend students with monitoring IEPs either receive specially designed instruction or be exited from the program.
- An MDT summary analysis completed in the 1993-94 school year, clearly stated that a student was no longer eligible for special education services. However, we found the student had an active IEP through the fall of 1996 and was included in the special education count each month. We recommend students no longer requiring specially designed instruction be exited from the special education program.
- Seven IEPs did not clearly indicate the hours of service provided to students. We recommend the district review IEPs and ensure the number of hours correctly reflects the amount of service a student receives in the special education program.

***District Response:***

*The district stated that it will develop procedures to ensure: a) IEPs reflect the recommendations of the MDT, b) students with monitoring IEPs either receive specially designed instruction or are exited from the program, c) students no longer eligible to receive services will not be included in the special education program or counted on the monthly P223H and d) hours of special education service will be documented in each student’s IEP.*

**Auditor’s Concluding Remarks:**

We appreciate the district’s prompt attention to these issues.



**Objective 4:**

**To determine why the Oakville School District Special Education Program exhibits high rates of growth, extraordinarily high costs or other characteristics that require the attention of the Safety Net Committee.**

**Conclusion:**

- Oakville School District's special education enrollment decreased from 22.02 percent in 1994-95 to 17.84 percent in 1995-96. The district has made efforts to reduce their special education enrollment in accordance with certifications made to the safety net. The funding formula allows a grace period for districts to reduce their special education enrollment percentage. The district was funded for their entire 1995-96 special education enrollment.
- The district has a large population of students residing on the Chehalis Indian Reservation. These students qualify the district for Federal Impact Aid, a federal program designed to compensate districts for "federally connected" students residing in the district. The district did not include the Federal Impact Aid generated by special education students in the revenue available to the special education program.
- The district did not formally allocate any of the basic education allocation related to its special education population to the special education program.
- We determined that the district employed additional school psychologists in 1994-95 to complete the assessments generated by district referrals to special education. In 1993-94 and 1994-95 there were a significant number of students identified as Seriously Behaviorally Disabled (SBD). The percentage of students identified as SBD was significantly above state and national averages for that category. Under the old funding system the SBD population generated more revenue than under the current excess cost model.
- In 1994-95 and 1995-96, the district's direct special education expenditures were less than the revenue generated by the state funding formula each year.

***District Response:***

*The district stated that it made a good-faith effort to know and follow the Impact Aid, Public Law 81-874, rules as they understood them. The district believes there is confusion regarding this on the district, state and federal level. The district contacted the U.S. Department of Education during the course of our audit and was told that there was no specific guidance regarding the accounting for the special education portion of Impact Aid, but that the federal government expects these funds to be handled in the same manner as Individuals with Disabilities Education Act (IDEA) funds. The district also reviewed the state Common School Manual, The Accounting Manual for Public School Districts of the State of Washington and The Administrative Budgeting and Financial Reporting Handbook for schools seeking guidance and clarification. The district found that none of these sources provided specific guidance on accounting for the special education portion of the Impact Aid program. The district would like documentation that is readily available to the local district that speaks to this issue.*

*The district responded to the report statement that the district did not formally allocate any of the basic education revenue related to its special education population to the special education program. The district stated that additional charges associated with students main streamed into the regular classroom could have been allocated to the special education*

*program. Considering the district has an extremely high percentage of special education students, this would have resulted in an increase of expenditures in the special education program.*

*The district also responded to the report statement regarding the district's direct special education expenditures being less than revenue generated by the state funding formula in both 1994-95 and 1995-96. The district stated that when total revenue received is compared to total program costs, as taken from the F-196 (Part 4), the district's special education costs exceeded total revenues for both years. The district stated that their analysis includes the revenues received from the Impact Aid special education allocation. Therefore, according to the district, even though the Impact Aid special education allocation was not tracked under a separate account code, the district did expend the allocated amount under program 21/24.*

### **Auditor's Concluding Remarks:**

The Impact Aid requirements state that the portion of Impact Aid related to special education students must be separately tracked and used to provide FAPE in accordance with IDEA. Nothing in the School District Accounting Manual or Administrative Handbook prevents the district from tracking the federal Impact Aid funds separately.

The Office of Superintendent of Public Instruction (OSPI), school district administrators and our office are addressing accounting issues associated with special education expenditures and their relation to special and basic education revenues.

We disagree with the district's analysis of the F-196 Part 4 section. We do not believe this report shows that the district's total special education costs exceeded total revenues or that P.L. 81-874 funds were expended under program 21/24 even though the district did not track the funds separately.

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### **Objective 5:**

**To identify elements of the Oakville School District Special Education Program that could be considered for implementation at other school districts.**

### **Conclusion:**

- We did not identify specific elements of the district program that could be considered for use at other districts, however, the district is committed to meeting the needs of its students.

### ***District Response:***

The district did not respond specifically to Objective 5, but commented on the audit in general.



*The district wishes to thank the audit team for their diligence and professionalism with the exception of our concerns as noted under #4 as stated above. We found the audit helpful and productive.*

**Auditor's Concluding Remarks:**

We wish to thank the district officials and personnel for their assistance and cooperation during our audit.



The basis for our conclusions and the district's full response is included in the Report Detail section.

# Oakville School District No. 400 Special Education Program Audit Report Detail

## INTRODUCTION

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This report contains the results of a program audit we performed on the Oakville School District Special Education Program. Our audit covered the 1995-96 school year. The field work was completed on February 28, 1997.

## BACKGROUND

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In 1995, the Legislature revised the state special education funding formula (Chapter 18, 2nd Special Session, Laws of 1995). The formula incorporates three significant changes: (1) the move to an “excess cost” funding model that includes only the costs of a child’s special education above basic education funding, (2) establishment of a maximum index of eligible special education enrollment per district and (3) a single allocation of funds per student without regard to a student’s disability.

The Legislature set aside nearly \$40 million in state and federal funds to assist school districts with demonstrated financial or program needs not met through the funding formula. This “safety net” was required due to a 1987 court decision in the case, *Washington State Special Education Coalition v. State of Washington*. The court requires the state to provide a safety net when special education funding is based upon statewide averages. A State Special Education Safety Net Committee was created to review applications for safety net funds. The State Auditor’s Office was given responsibility for auditing special education programs exhibiting unusual rates of growth, extraordinarily high costs or other characteristics requiring the attention of the Safety Net Committee.

This audit was conducted in accordance with the legislation that assigned the State Auditor’s Office responsibility for auditing special education programs. The Oakville School District is among approximately 20 districts to be selected for a program audit this fiscal year. The district’s program was selected based on two factors. First, the overall increase or change in the special education population between 1994-95 and 1995-96. The second factor was the applications submitted to the Safety Net Committee.

## AUDIT SCOPE

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We examined student Individual Education Programs (IEPs) and other district records concerning the assessment and evaluation of students. We reviewed the special education program for efficiency and effectiveness. We also looked at records and data to determine the accuracy of statements made to the Safety Net Committee.

The methods used to perform this audit included detailed reviews of district records, staff interviews, observation of the program and analysis of data derived from the district and other sources when appropriate. Specific methods used for the examination of each audit objective are detailed in the working papers.

## SCHOOL DISTRICT DESCRIPTION

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Oakville School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) to provide public school services to students in grades K-12. Five elected board members have oversight responsibility for the district. The board appoints district management and has fiscal responsibility for the district.

District administration and personnel who were primary contacts during this audit include:

- Mr. Eldon Lonborg, Superintendent
- Mr. Craig Bailey, Assistant Special Education Director/School Psychologist
- Ms. Michele Young, Business Manager
- Ms. Margaret Schubert, Special Education Secretary

Oakville School District is located in Grays Harbor County and consists of an elementary school, middle school and high school. The 1995-96 district enrollment was 363 students, of which 65 were special education students. The special education enrollment decreased to approximately 17.84 percent of the total enrollment from the 1994-95 percentage of 22.02.

## AUDIT RESULTS

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### Objective 1:

**To determine whether the Oakville School District Special Education Program effectively and efficiently provides a Free and Appropriate Public Education (FAPE) to special education students as defined by the *Washington Administrative Code* (WAC).**

## **Conclusion:**

WAC 392-172-035 defines FAPE as special education and related services that are provided at public expense, meet the standards of the state education agency, include preschool, elementary school or secondary school education, and conform with individualized education program requirements. The Oakville School District provided FAPE to its 1995-96 special education students.

The district has a referral and evaluation process for students with needs that may not be met in the general education classroom. In the 1995-96 school year, the special education enrollment in the district was significantly above the 12.7 percent index established by the new funding formula. Districts have been accorded a four-year window to decrease, if necessary, their special education enrollment. The district may lose funding for students served over the 12.7 percent index. For this reason, the district limits its referrals to special education in the following ways:

- The district is taking a closer look at students to assess whether they are “in need of special education” or whether accommodations or modifications can be made in the general education setting.
- The district is considering more educational alternatives before referring students to special education.
- The district has elected not to qualify students for special education based on “professional judgment” but on qualifying test scores.

The district provides special education services to most students in a resource pull-out program. One teacher is assigned to the elementary resource room and another is responsible for both the middle school and high school resource rooms. The district also has a program that serves preschool age children with special education needs. Children birth to age three are provided special education services by Elma School District.

Additional programs offered to high school students include a home study program and a program designed for students to earn their General Education Diploma (GED). The home school program is specifically utilized for students who are unable to work successfully in school due to problem behaviors. Through a self-paced specialized curriculum and regular meetings with the special education teacher, students are slowly transitioned back into the school setting. The district’s GED program is designed to meet the needs of “at risk” students with IEPs. This program, provided in association with Centralia Community College, enables students to complete their GED requirements.

## ***District Response:***

*None.*

## **Objective 2:**

**To evaluate the Oakville School District Special Education Program system of internal controls that ensure compliance with state and federal special education requirements.**

**Conclusion:**

Internal controls are established to direct the special education referral process and ensure continuing compliance with special education requirements. We conducted interviews with the special education administrative team, certificated staff and the school psychologist to document and assess the staff's understanding and compliance with the process. The interviews and our student file review established that an internal control process is in place, appropriate personnel are assigned to oversee the process and special education staff know and attempt to follow the process.

We identified two areas that should be strengthened. The first area involves the monthly report of the special education enrollment for the district (P-223H Form). The eligibility criteria for counting a student states that a student's evaluation and IEP must be current on the count date. In 1995-96, the district counted students whose IEPs and evaluations were not completed. Of the 34 files reviewed, 29.4 percent of the students were counted without a current IEP, and 17.6 percent were counted without a current evaluation. To comply with requirements, the district should only count students with current IEPs or evaluations.

A second area that should be strengthened involves Multi-Disciplinary Team (MDT) signatures. As stated in WAC 392-172-152, each member of the MDT must sign the summary analysis to indicate agreement with the analysis. If there is disagreement, the dissenting team member must submit a separate statement presenting his or her conclusion. Some files only had the signature of the school psychologist. We recommend implementing procedures to ensure each MDT member signs the summary analysis.

***District Response:***

*The audit revealed two areas that should be strengthened.*

*1) P223H Monthly reporting*

*In 1995-1996 the district counted students whose IEP's and evaluations were not completed. The district will take more care to ensure that only students that have current IEP's and completed evaluations will be included on the P223H.*

*2) Multi-Disciplinary Team (MDT) signatures*

*The district will develop procedures that will ensure each MDT member signs the summary analysis. Should a member of the team disagree, the dissenting member will submit a separate statement presenting his or her conclusion.*

**Auditor's Concluding Remarks:**

We appreciate the district's prompt attention to this issue.

**Objective 3:**

**To verify that the Oakville School District Special Education Program IEPs are appropriate and properly prepared.**

**Conclusion:**

We reviewed 34 special education files to determine if they complied with state and federal procedural requirements and directives. These files represented nearly half the 1995-96 special education files for the district. Besides the enrollment counting and MDT signature issues discussed in Objective 2, we noted additional items of concern.

In several files, the IEP did not address the recommendations made by the MDT on the summary analysis. We recommend the district verify that IEPs are written to reflect the MDT recommendations.

We found two "monitoring" IEPs in the 34 files reviewed. These IEPs did not indicate that "specially designed instruction" was being provided. The district used monitoring IEPs to observe the success of students in the regular classroom before exiting them from the special education program. As defined in WAC 392-172-045 and WAC 392-172-174, specially designed instruction is planned and organized instructional activities designed by certificated special education and/or related services personnel. This instruction may be implemented by other special education and/or related services personnel as provided by the IEP. The term does not include individual accommodations and modifications to the general classroom that alone could meet students' needs. Appropriate and properly prepared IEPs require specially designed instruction. We recommend students with monitoring IEPs either receive specially designed instruction or be exited from the program.

Additionally, one student was not eligible for special education services. An MDT summary analysis completed in the 1993-94 school year, clearly stated that this student was no longer eligible for special education services. However, we noted that this student had an active IEP through the fall of 1996 and was included in the special education count each month. We recommend students no longer requiring specially designed instruction be exited from the special education program.

Finally, seven files reviewed did not clearly indicate the hours of service provided to students in the IEP. These middle school and high school student files stated the service as "up to," "maximum of" or "as needed." WAC 392-172-160 states that the number of hours per day should be clearly stated in the IEP. We recommend the district review IEPs and ensure the number of hours correctly reflects the amount of service a student receives in the special education program.

***District Response:***

*In several files, the IEP did not address the recommendations made by the MDT on the summary analysis. The district will develop procedures that will ensure the IEP's will reflect the recommendations of the MDT.*

*The district will develop procedures that will ensure students with monitoring IEP's either receive specially designed instruction or be exited from the program.*

*The district will develop procedures that will ensure that only students that are eligible for special education are counted in the monthly P223H report and included in services. At the point in time when the MDT summary analysis states a specific student is no longer eligible to receive services, the student will not be included in the special education program or counted on the monthly P223H.*

*The district will ensure that procedures will be developed to document hours of service per day provided to students which will be reflected in the IEP.*

#### **Auditor's Concluding Remarks:**

We appreciate the district's prompt attention to these issues.

#### **Objective 4:**

**To determine why the Oakville School District Special Education Program exhibits high rates of growth, extraordinarily high costs or other characteristics that require the attention of the Safety Net Committee.**

#### **Conclusion:**

Oakville School District's special education enrollment decreased from 22.02 percent in 1994-95 to 17.84 percent in 1995-96. However, the district's enrollment was still above the 12.7 percent index contained in the new funding formula. The district has made efforts to reduce their special education enrollment in accordance with certifications made to the safety net. The funding formula allows a grace period for districts to reduce their special education enrollment percentage. During the first year of the grace period, districts were funded up to 75 percent of their 1994-95 enrollment percentage or the actual 1995-96 percentage, whichever was less. Oakville School District was funded for their entire 1995-96 special education enrollment.

The district has a large population of students residing on the Chehalis Indian Reservation. These students qualify the district for Federal Impact Aid, a federal program designed to compensate districts for "federally connected" students residing in the district. Federal Impact Aid allocates a separate amount for students served in special education. A requirement associated with the allocation is that it must be used to serve the children with disabilities that generated those funds. In 1995-96, the district did not include the Federal Impact Aid generated by special education students in the revenue available to the special education program.

We considered whether the district has unusually high costs not considered in the new special education funding formula. We reviewed program staff levels and budgets before and after the funding formula change. We noted that the state funding formula generated less special education revenue for the district in 1995-96 than the previous year, however, the district served fewer students.

Before 1995-96, the special education formula automatically allocated part of the basic education revenue to the special education program. This allocation was based on an assumed amount of time that students spent in special education programs. The formula also assumed that the greater the time spent in special education classes, the more basic education delivered in the special education program.

The new formula allows districts to allocate the basic education dollars associated with special education students. Presumably, the district can better allocate basic education revenue based on the actual service delivery patterns. The allocation could result in more or less basic education revenue available to the special education program. However, all of the basic education revenue is at the school district to serve those students. The district did not formally allocate any of the basic education allocation related to its special education population to the special education program.

The district received Maintenance of Effort State Revenue (MOESR) and Individual High Cost Student awards from the safety net in 1995-96. The high cost award was for a student that had been in the district since 1993. The district never expended this award because the student withdrew from the district during the 1995-96 school year.

The district had no significant changes in the programs provided or certificated staff between 1994-95 and 1995-96. However, there was a change in the related services personnel and the number of students identified for special education during that same period. In 1994-95, the district employed a full time school psychologist who acted as Special Education Director, and two additional part time psychologists. In 1995-96, the district employed only one part time school psychologist and the Superintendent directed the special education program.

We determined that the district employed additional school psychologists in 1994-95 to complete the assessments generated by district referrals to special education. There appeared to be an increase in students served in special education during the 1993-94 and 1994-95 school years. This change in enrollment occurred about the same time the district assigned additional program responsibility to its school psychologist. In 1995-96, the school psychologist was replaced and the district experienced a decrease in both referrals and the overall special education enrollment. The district's special education enrollment percentage is currently equivalent to the years before 1993-94.

In 1993-94 and 1994-95 there were a significant number of students identified as Seriously Behaviorally Disabled (SBD). The percentage of students identified as SBD was significantly above state and national averages for that category. In 1994-95, the state and national averages were under 9 percent compared to 30 percent for Oakville School District's special education population. The percentage of students identified as SBD is currently about twelve



percent of the district's total special education enrollment. Under the old funding system the SBD population generated more revenue than under the current excess cost model.

After reviewing the 1995-96 special education program, we determined that the district continued to provide appropriate and necessary services to its special education population. In 1994-95 and 1995-96, the district's direct special education expenditures were less than the revenue generated by the state funding formula for that year.

***District Response:***

*One of the audit conclusions under objective 4 states "Federal Impact Aid allocates a separate amount for students served in special education. A requirement associated with the allocations is that it must be used to serve the children with disabilities that generated those funds. In 1995-96, the district did not include the Federal Impact Aid generated by special education students in the revenue available to the special education program."*

*During the special education audit, the district was questioned on the absence of Program 29. According to the auditor, Program 29 should reflect the expenditures for the special ed portion of the PL-874 (Impact Aid) payment. There seems to be some confusion regarding this on the district, state and federal level. Nevertheless, this conclusion on the part of the audit team gives rise to the conclusion that the district underspent available special education revenues. As the discussion attempts to make clear, district staff have operated within the rules as they understood them. It is also important to note that staff made a good-faith effort to know the rules. So while the district will act in the future in accordance with the PL-874 rules as described by the audit team, we take umbrage at the suggestion that we should have known these rules in the past.*

*Oakville School District has been receiving PL-874 monies since 1959. If we make an assumption the district has been audited on a two year cycle for the last 38 years, the district has been through 19 audits. In addition, within the last several years, the district has had a federal audit which was conducted by the United States Department of Education. There were no audit comments or concerns over the fact our district did not expense the special ed portion of the PL-874 payment to Program 29, or track the payments or expenditures separately.*

*Our district contacted the Department of Education on March 26, 1997, to ask for specific federal guidelines for the expending of the special ed portion of the PL-874 payment. Kathy Shaw, United States Department of Education, stated "there was nothing specific" and "it would follow the same guidelines as the IDEA (Individuals with Disabilities Education Act) grant." She said to check with our state department to find out if there was anything more specific.*

*WAC 392-123-010 states, "The superintendent of public instruction and the office of the state auditor shall publish and distribute to each school district an accounting manual which shall be referred to as The Accounting Manual for Public School District of the State of*

*Washington. Such accounting manual, as now or hereafter amended, shall govern the accounting procedures of each school district...” (Attachment 1)*

*The Accounting Manual is the local school district’s “bible.” Whenever there is a question on procedure or appropriate account code to use, the district will turn to The Accounting Manual for assistance. Therefore, it was only natural for the district to turn to The Accounting Manual when this issue was first raised. Under “Chapter 6 - Expenditures” six (6) different programs are listed. Program 24 lists “P.L. 94-142”, or the title of a specific grant so there is no confusion as to which grant should be expended under Program 24.*

*Program 27 and Program 28 lists “P.L. 89-813” as the grant for which expenditures should be tracked under these corresponding programs.*

*Under Program 29, however, “P.L. 81-874” is not listed. (Attachment 2)*

*In Chapter 5 “Revenues” of The Accounting Manual, Revenue Account 5300 is entitled “Impact Aid - Maintenance and Operations”. There is no mention of special ed categories. It simply states, “These moneys compensate school districts for loss of local taxes on federal property”. The term “Maintenance and Operations”, common terminology for local school district in conjunction with Local Levies, implies monies that can be used for any basic education function - monies that can be used without restriction.*

*The district also looked in the Administrative Budgeting and Financial Reporting Handbook for guidance and clarification.*

*Under the Revenue Account 5300, under “Federal, General Purpose,” the sub title is, “Impact Aid, Maintenance and Operations”. Again, the term “General Purpose” and “Maintenance and Operations” implies a type of revenue account that can be used without restriction and for general basic ed purposes. The term “Special Education” is not used here. Under the Expenditure section of the handbook, Program 29 sub title states, “Other Categorical”. Special Education or P.L. 81-874 is not listed. (Attachments 3 & 4)*

*Several other schools were contacted by our district to determine how they were expending the special ed portion of the P.L. 81-874 funds. Some schools are using Program 24, some schools are using Program 29, and some schools are not tracking the special ed portion separately. Those schools that are not tracking funds separately are of the belief these monies are in-lieu of local levy revenues and are therefore general purpose monies.*

*Our district is committed to following the laws of both the state and federal government. However, it is a bit disconcerting to find that no one really has a definitive answer for this. When this issue was brought up during the audit, the district researched the Common School Manual, The Accounting Manual and the Administrative Handbook in an attempt to determine how this could have been overlooked on our part. After completing the research, the district has determined it was overlooked simply because it is not there. When that fact was brought up to the auditor, the district was told we would receive some information that stated these questioned guidelines. What the district received was taken from the guidelines*

*that the State Auditors use to audit school districts. (Attachment 5) While the district appreciates the efforts of the state auditor to help clarify this issue for our district, this is not a source that is readily available to the local school district.*

*It is our district's belief that The Accounting Manual is not clear on the issue of tracking P.L. 81-874 monies separately. If The Accounting Manual lists "P.L. 94-142" and "P.L. 89-813", it should also list "P.L. 81-874". In addition, it would seem that the revenue source for the special education portion of the P.L. 81-874 funds should be tracked separately as well. Kathy Shaw, from the U.S. Department of Education said that the federal government expects these funds to be handled in the same manner as IDEA funds. IDEA funds are tracked separately from Program 21/Revenue 4121 monies, into revenue account (6124) and expensed to a separate program account (24). Kathy Shaw indicated the specific issues of tracking expenditures and revenues should be left up to the individual states. The Accounting Manual is generally very black and white, however, in this instance it is a very indistinct gray. The district would like to have documentation that is readily available to the local district that speaks to this issue. So far, we have not been able to obtain such documentation.*

*b) The audit report states "the district did not formally allocate any of the basic education allocation related to its special education population to the special education program".*

*By not allocating basic education allocations to special education programs, the district in effect decreased total expenditures in the special education programs. For every student that was mainstreamed into the regular classroom, the district could have charged the time spent in the basic education classroom to special education program. Considering our district has an extremely high percentage of special education students, this would have resulted in an increase of expenditures in the special education program.*

*c) The audit report states, "In 1994-95 and 1995-96, the district's special education expenditures were less than the revenue generated by the state funding formula for that year".*

*The table below makes a comparison of all special education revenues received and expenditures made during 1994-95 and 1995-96 school years.*

*PL-874 Sped Add-ON Analysis  
Resource to Program Expenditures*

<i>95-96</i>	<i>Revenues</i>		<i>Expenses</i>	<i>Expenses Part 4</i>
<i>4121</i>	<i>284,346.22</i>	<i>21</i>	<i>277,436.83</i>	<i>388,279.77</i>
<i>6124</i>	<i>38,699.15</i>	<i>24</i>	<i>38,973.49</i>	<i>38,973.49</i>
<i>5300</i>	<i>26,002.00</i>	<i>29</i>		
<i>Total</i>	<i>349,047.37</i>		<i>316,410.32</i>	<i>427,253.26</i>

32,637.05 (78,205.89)

94-95	Revenues		Expenses	Expenses Part 4
4121	459,716.75	21	396,687.50	501,176.00
6124	39,122.10	24	42,788.79	42,998.47
5300	24,729.77	29		
Total	523,568.62		439,476.29	544,174.47

84,092.33 (20,605.85)

*The district would like to note the following. Total dollars figures recorded in the last column were taken directly from the F-196 (Part 4) under the heading of "Total Program Expenditures". When total revenues received is compared to total program costs, the district's special education costs exceeded total revenues received for both years. This also includes the revenues received from the PL 81-874 special education allocation. In other words, even though the district did not track the PL 81-874 special ed revenues/expenditures under a separate account code, the district did expend the allocated amount under program 21/24.*

#### **Auditor's Concluding Remarks:**

We appreciate the district's efforts to research accounting requirements related to federal Impact Aid (PL 81-874) revenue generated by special education students. The Impact Aid requirements, contained in the district's grant agreement, the Catalog of Federal Domestic Assistance (CFDA) and the Office of Management and Budget (OMB) audit compliance supplement state that the portion of Impact Aid related to special education students needs to be tracked separately and used to provide FAPE in accordance with IDEA. These are not general purpose monies.

The audit team suggested using Program 29 as one option that would meet the requirement to track the Impact Aid expenditures separately. Other options, such as use of Program 21, Program 24 and/or a subprogram, resulting in a separate tracking of expenditures would also be acceptable. Nothing in the School District Accounting Manual or Administrative Handbook prevents the district from tracking the special education portion of the federal Impact Aid funds separately.

The district also commented on statements in the report concerning basic education revenue allocations and the district's direct special education expenditures being less than revenue generated by the state special education funding formula in both 1994-95 and 1995-96.

We would like to note that Office of Superintendent of Public Instruction (OSPI), school district administrators and our office are addressing accounting issues associated with special education expenditures and their relation to special and basic education revenues. These

issues are being addressed through the School District Accounting Advisory Committee. The committee hopes to communicate additional guidance in this area in the future.

The audit team stands by the statement that the district's direct special education expenditures were less than the revenue generated by the state funding formula in both 1994-95. Furthermore, we disagree with the district's analysis of the F-196 Part 4 section. We do not believe this report shows that the district's total special education costs exceeded total revenues or that P.L. 81-874 funds were expended under Program 21/24 even though the district did not track the funds separately.

#### **Objective 5:**

**To identify elements of the Oakville School District Special Education Program that could be considered for implementation at other school districts.**

#### **Conclusion:**

We did not identify specific elements of the district program that could be considered for use at other districts, however, the district is committed to meeting the individual needs of its students. It is evident from the staff interviews that cooperation exists between the general and special education staffs.

#### ***District Response:***

The district did not respond specifically to Objective 5, but commented on the audit in general.

*The district wishes to thank the audit team for their diligence and professionalism with the exception of our concerns as noted under #4 as stated above. We found the audit helpful and productive.*

#### **Auditor's Concluding Remarks:**

We wish to thank the district officials and personnel for their assistance and cooperation during our audit.

### **ADDITIONAL INFORMATION**

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It is important to note that this audit does not replace, or otherwise duplicate, the regularly scheduled audit of the district that includes a review of financial statements and compliance with laws and regulations. Accordingly, we do not express any opinion related to those items in this report. We did consult with the financial auditors and brought items to their attention when warranted.

The audit of the Oakville School District Special Education Program was performed in accordance with generally accepted government auditing standards. As such, it included such tests of records and other audit procedures we considered necessary, including a review of management controls where appropriate.

This report is a public document. To obtain additional copies of this report, or for questions related to the audit, address inquiries to the State Auditor's Office, P.O. Box 40021, Olympia, WA 98504-0021 or call (360) 753-4792.

# Oakville School District No. 400 Special Education Program Audit Addendum

## Directory Of Officials

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### Elected

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		<u>Term</u>	<u>Expiration</u>
Board Members:			
Director 1	Becky Baker	4	December 1997
Director 2	Janice Latch	4	December 1997
Director 3	Steve Reinitz Chair	4	December 1999
Position 4	Steve Mittge	4	December 1999
Position 5	Carrie Knowles	4	December 1999

### Appointed

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Superintendent	Eldon Lonborg
Attorney	Craig Hanson

### Mailing Address

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District	PO Box H Oakville WA 98568
Attorney	Lane, Powell, Spears & Laberski Evergreen Plaza Building 711 Capital Way Olympia WA 98501